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SUBJECT: METI STUDY GROUP EXAMINES ROLE OF INVESTMENT FUNDS

11. SUMMARY: A Ministry of Economy, Trade, and Industry (METI) study group June 16 released a report that describes the role of private investment funds in Japan's financial markets. The report notes investment funds can promote economic growth and contribute to stronger corporate performance by acting as major suppliers of risk capital, by encouraging greater transparency in corporate management, and by contributing to an efficient reallocation of human and management resources. The report urges a strengthened dialogue between investment funds and the managements of listed companies to improve public understanding of the funds' activities. End Summary.

12. The Study Group on Investment Funds, established in February 2008 by METI's Industrial Finance Division, released a report June 16 entitled "Aiming at Funds That Contribute to Industrial Development and Economic Growth." The stated purpose of the report is to counteract what METI considers widespread misunderstanding among the Japanese public of the function of investment funds in global capital markets. The report examines the various types of private investment funds, with a view to improving public understanding of their role in the nation's financial system. The report does not list funds by name nor does it rate different types of funds as "good" or "bad."

13. The study group, under the chairmanship of Waseda University Professor of Finance Yasuhiro Yonezawa, includes an M&A lawyer, a senior accountant, two academics, an investment banker, the chairman of the Japan Private Equity Association, several senior managers of Japanese and foreign investment funds, and senior officials of the Japan Business Federation (Nippon Keidanren) and the Japan Chamber of Commerce and Industry.

Most Funds Make a Positive Contribution to Japan

14. The report identifies five broad categories of investment funds -- venture funds, buyout funds, hedge funds, activist funds, and "a

new type of fund that invests in listed shares (including management assistance funds, etc.)." The study finds investment funds generally fulfill a positive function by supplying equity capital to support corporate growth at all stages of the corporate lifecycle, from start-ups to long-established listed firms. Funds, the METI report states, also contribute to transparency of corporate management, reallocate human resources, and provide strategic management advice.

15. The report acknowledges a lack of understanding among the general public about the different categories of investment funds. Nevertheless, the report continues, it is relatively easy to prove venture funds, buyout funds, hedge funds and funds that invest in listed shares all contribute to Japan's economic growth and a stronger corporate sector by providing liquidity to the equity market and stimulating improvements in corporate value as reflected in share price. The report is less definitive on the role of "activist funds", noting that, based on available data, it is uncertain whether these funds improve corporate value. The report emphasizes the need for continued study on the impact of the activities of "activist funds" on industry's development and economic growth.

Hostile Takeovers Not Always Bad

16. On the issue of hostile takeovers, the report emphasizes investment funds have no "a priori relationship" with hostile takeovers since operating companies also conduct hostile takeovers against other firms. It notes that among the five categories of funds the group examined, only activist funds have, so far,

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attempted hostile takeovers in Japan. The report notes further, contrary to the negative image of the hostile takeover, such moves can enforce discipline in management. It is difficult, therefore, to make a sweeping judgement about whether the impact of hostile takeovers on Japanese companies is always negative.

17. The report also identifies several challenges that need to be solved for investment funds to fulfill their appropriate functions. Such challenges include: lack of accurate understanding of investment funds; lack of a consistent dialogue between companies and investment funds; ensuring the social responsibility of investment funds as shareholders; lack of coordination among investment funds; concerns over the undersupply of risk money to investment funds; and development, use and accumulation of human resources for investment funds.

Investment Funds Play an "Indispensable" Role

18. The report concludes investment funds will likely play an indispensable role in the future in underpinning industrial advances, and "creating a new framework for economic society through the process of sophistication and diversification of their functions." The latent strengths of investment funds have not yet been demonstrated fully in Japan, the report observes, since Japanese industries still lack an accurate understanding of the functions and potential benefits of investment funds. The report concludes by hoping its findings will stimulate further review and discussion, contribute to better understanding of the significance and functions of investment funds, and advance the dialogue between business and investment funds.

SCHIEFFER